The MORTGAGE BANKER

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What Is the Outlook for FHA?

FHA Commissioner Ferguson reviews here the past, present and future of the federal agency as he sees it

By ABNER H. FERGUSON

I FEEL that MBA members are old friends who have shared many problems with us in FHA in the past. I think also we have a mutual understanding of present difficulties. We have the same outlook for the future and our attitudes are similar concerning the job we have to do. By that I mean that as a private business group you are acutely aware that all successful business must operate in the public interest. As a government official I, of course, can only act in the public interest.

It seems to me that one of the most helpful methods of looking ahead is to look back. In outlining, then, the future of FHA let us go back to the era after the last war. Let us trace developments up to and through this war in an effort to determine the trends of the present and of the post-war period to come.

In broad outline, 1918 to 1930 were characterized by a short post-war depression, followed by a period of unbridled inflation which in turn bred one of the gravest depressions this country has ever known.

The short depression after World War I came about largely through the quick and complete demobilization of the returning army at a time when industry was unable to offer employment in a period of reconversion to peacetime production. When production *did* get into swing, the existing wartime controls had been lifted and the pent-up demand for consumer goods was given full sway, starting an unchecked inflationary spiral.

Almost every commodity had its speculators and every speculator had his paper profits. There were no restrictions on any market—land and real estate prices soared to fantastically false heights, construction boomed, the mortgage guaranty companies flourished, commercial loans grew by leaps and bounds, industry was humming, turning out radios, automobiles, the mechanical refrigerator, the washing machine and the thousand and one gadgets stimulated by the war. Installment credit knew no bounds. Interest rates all along the line were high. Money was easy and money went wild.

To a large extent our 1918 post-war period had been complicated also by a large excess of exports of goods and of loans, much of which was never paid. The first major breach on the world economic front was the uncontrolled inflation in Germany, followed by other political and economic difficulties in all countries abroad. As these became more entangled, the situation in this country grew more precarious. Finally it all blew up here in 1929.

During the decade following World War I, we had reared a huge economic skyscraper, but the foundation rested on shifting sand instead of bed rock. The foundations gave way and the superstructure collapsed following the crash of values on the stock exchange.

Cash and bank deposits dashed for the storm cellars and remained there afraid to undertake any venture—no matter how small. It became apparent that the activities of the federal reserve system were not sufficient to prevent a complete collapse of the financial structure of the country, nor were they capable of instigating its economic recovery.

The first necessary action was to restore the confidence of private capital and to reopen the channels of credit. The government knew that unless it could induce private capital back into its legitimate field the whole system of private enterprise would collapse with dire results to the country both politically and economically.

The choice of action, we might say, lay between direct government expenditure of the taxpayers' funds with control of all industry and finance vested in Government, and the more indirect method of sharing the risks of credit through loans, guaranties, insurance, etc. for losses sustained beyond

the control of private finance, but with such regulation as would protect the public interest. The latter seemed more desirable since it would leave intact individual initiative, which we all agree is the backbone of our economic system.

The government, therefore, created, one after another, the numerous Government credit agencies existing today. In the mortgage loan field the Federal Housing Administration was established. The FHA, as you know, lends no funds whatever—has never had funds to lend—but through the medium of its various insurance funds it insures mortgage loans and house repair loans made by private institutions.

In the eight years of its combined operations the FHA has insured close to \$5 billion of home mortgages and over \$1½ billion of repair loans. Shortly after the European war began, from January 1, 1940 through December 31, 1942, in a 3-year period, the FHA has issued commitments to insure \$2 billion of mortgages on newly constructed houses in the currently designated war industry areas, and had insured over \$650 million of repair loans in these areas.

There is no question but that this large production of housing and home repair had, and is continuing to have, a profound effect in cushioning the shock of war in areas where the industrial tempo has been most accelerated by the war. And let me emphasize that it was all accomplished by prviate enterprise.

The FHA's war tasks are three-fold and they started really before the declaration of war on December 8, 1941, since the lend-lease program and our own rearmament program had already created increased industrial activity in many areas.

The first of these war tasks is to insure mortgages and loans in order to provide new houses and to repair or convert old houses into suitable quarters for workers in airplane factories, shipyards, munitions plants, and other vital war industries.

New construction, as you know, has been of paramount importance. Over-night small towns of only a few hundred or a thousand residents have mushroomed into cities of tens and hundreds of thousands. The dire lack of housing in some of these "over-night cities" and the resulting turnover of labor have threatened the rate of production of vital materials. But private builders, operating as best they can within the limitations of priorities and allocations, and financed principally by FHA's Title VI mortgages, have contributed their share to ward off this threat. On March 28, 1941, the new Title VI section was added to the National Housing Act. Since that date, through January 31, 1943, over 200,000 dwelling units in war areas had been placed under construction.

At the time of the last increase of insurance authorization by Congress under Title VI about 50 per cent of the home construction being started was financed through FHA Title VI insurance. During the ensuing months an increased proportion has required FHA insurance so that it is currently covering about 85 per cent of all new privately financed construction. Consequently the \$500,000,000 increase made available on May 26, 1942 has not been sufficient to cover the quota established for private housing up until June 30, 1943.

There is now before Congress a bill authorizing the insurance of an additional \$400,000,000 of mortgages for housing for war workers. It is thought that this new sum will be sufficient to carry out our part of the remainder of the quota of 130,000 dwelling units which is expected to be built by private capital up to July 1 of this year. However, the belief is now that there may need to be established an additional quota when the present one is exhausted, and if this is done, Congress will be asked for an additional insurance authorization under Title VI. The new authorization (recently approved by Congress) will bring the total up to \$1,200,000,000 of mortgage loans advanced by private capital which may be insured by the Government. Such action attests to the faith that the Congress has in private capital and to the dependence the Congress places upon the ability of private capital to do a job—even in war time.

It also recognizes the successful job private enterprise has already done in the housing field.

The FHA job during the war is to insure the financing of housing for war workers wherever needed and wherever it is reasonably safe as an investment for private capital. To do this, we are consciously taking risks which we would not underwrite in ordinary times. We are hopeful that our income and salvage from this program will be sufficient to cover foreclosure losses. Up to now, of course, there is no indication of what the final record will be, but operations so far are in accord with our actuaries' estimates. In any insurance operation the initial expenses are the heaviest, and it is not until renewal premiums begin to accumulate that the income exceeds expenses and a balance is available for building up reserves for losses. Up to December 31. 1942, 186,547 loans have been insured or are committed for insurance in a total amount of \$761,389,540. Also at the year's end, there had been deposited in the War Housing Insurance Fund a total of \$4,938,998 and for the last quarter of the year collections averaged \$457,000 a month. Our actuaries tell us that Title VI funds on

Who's Who in This Issue

FHA Commissioner Abner H. Ferguson's article in this issue is the complete text of his address at the MBA War and Post War Clinic in Chicago which so many members requested be published here. We are advised that the OWI thought so much of the speech that portions of it were used in broadcasts beamed abroad.

W. E. Miller is vice president and secretary of A. D. Fraser, Inc., Cleveland. His article is on the same general subject as that of Robert L. Irving in the last issue but his opinions differ in some instances with Irving's and some points have been considerably expanded.

M. Mark Watkins' comments are taken from the address he gave at the MBA War and Post War Clinic in New York.

Servicing Is the Thing Now

None of us knows definitely whether or not a mortgage business can subsist for the duration on *servicing alone*. I think it can if the effort is made. So we must go on with our business on the sound premise that if there must be nothing more to the mortgage business for the duration except mortgage servicing, then it is up to us to try and make money out of servicing. And the best way of making money is to save it through far-sighted economical and efficient management.

Above all, let's win the war first. That, after all, is the crux of our business abnormalities. Our best investment is in keeping up *our* morale—the morale of all who work for us and all who work with us. The dividends from this investment will come back to us later. — *M. Mark Watkins, Vice President, Peoples Bond & Mortgage Co., Philadelphia.*

hand plus the anticipated renewal premiums and interest on investments will be sufficient to cover all future expenses and losses should 17.2 per cent of the insured cases be foreclosed. In other words, we can have foreclosures in one out of every six mortgages insured before the Government will be called upon to pay under its guarantee of the debentures issued under Title VI. This estimate is based on the insurance of $700,000,000 of mortgages insured and without providing for any future new business. Of course, we hope very much and confidently anticipate that the foreclosure rate will be much less than this 17.2 per cent. However, when the war is ended, and the last Title VI mortgage is paid off, should there be a loss, such loss will have to be charged off against U. S. Treasury funds as part of the cost of winning the war, and will in no event affect the Mutual Mortgage Insurance Fund.

There are two other important tasks now being carried on by the FHA as war-time measures:

(1) We act as an agent for the War Production Board in processing priority applications in order to prevent any seepage of essential war materials into non-essential housing and,

(2) We are enlisted in the war on inflation. We are encouraging in every way possible the payment of insured debts out of war income.

You know, of course, that last October, because of the critical shortage of construction materials, the War Production Board and the National Housing Agency established minimum War Housing Standards. You also know that with the easing up of these shortages, the standards have been somewhat liberalized. This liberalization should greatly facilitate the construction of privately-financed housing projects for war workers during 1943. From your standpoint, this should mean better security for the loans you make since the new standards will provide the occupants with more acceptable and more attractive living quarters. And certainly this means better risks for FHA insurance.

Two other recent developments that should facilitate new construction to house war workers are:

(1) The designation of the National Housing Agency as a claimant agency in the War Production Board's Controlled Materials Plan which assures direct representation in the allocation of war materials, and

(2) The WPB's recent assignment of AA-3 priorities to projects housing war workers. This applies to privately as well as publicly financed projects and is a concrete step to provide adequate access to those materials.

The counter-inflationary influence of FHA insured mortgages is going to be of inestimable value not only now during the war period, but it could be one of the stabilizing factors at the close of the war as well. We are all keenly aware of the dangers of inflation inherent in a war economy and many of us are beginning to realize that those dangers will not pass overnight with the signing of peace. Although negative in aspect, the FHA's system of insured mortgage lending offers four devices in the field of housing to aid in the fight against this danger.

The first stems out of and is an application of the law of supply and demand. Provided other factors are in balance the stimulation of production, and hence producing materials to offset the increased demand, is the most effective way of restraining price rises and of preventing inflation. It is largely when production falls behind demand that the upward pressure of prices becomes effective and inflation

Biggest Problem in Lending?

The mortgage business has been on a honeymoon. Some of us are still living through its pleasant stages, but sound business judgment tells us honeymoons don't last forever. One evidence of the honeymoon's end is personnel. Because of the war, the personnel situation is becoming more and more difficult.

It is really the biggest problem in the mortgage business. New construction, a vital factor in a brisk mortgage business, has dropped off to practically zero, and as for putting any *new* business on the books created through mortgage refinancing, there just won't be enough to talk about. Refinancing in the present market is definitely not a wholesome part of the mortgage business. It is inescapable that the fundamental problem in the administration of mortgage business today is that of conserving as best we can the business *now* on our books—and to concentrate our efforts on giving the companies we represent the best service possible under abnormal existing conditions. — *M. Mark Watkins, Vice President, Peoples Bond & Mortgage Co., Philadelphia.*

threatens. The stimulating effect of insured mortgage financing to builders helps to increase the supply of housing where and when it is most demanded.

The second counter-inflationary device inherent in the FHA system is a uniform and controlled system of valuation—a control unknown outside the insured mortgage system. Competition of mortgage lenders to attract borrowers by raising valuations in order to increase the size of loan offered was in large part responsible for the real estate inflation of the twenties. But such practices are virtually barred under the FHA system.

The third is quality control. Inflation can occur by cheapening quality, even though nominally prices may not rise. The FHA system of inspections and of minimum standards precludes to a great extent this form of inflation.

The fourth anti-inflationary action of the FHA—and one you mortgage bankers have greatly aided—is the encouragement to mortgagors to liquidate their mortgage debts. This, as you will remember, was one of the seven points in the President's anti-inflation program. As a correlary to the President's program, the FHA, since May 26, 1942, has waived the prepayment premium when there is no refinancing. Since that time 19,753 mortgages amounting to $85,955,565 have been completely paid off.

Concerning the post-war outlook for FHA, as I have already said, its aid in counteracting inflation is most important. It will, if anything, be more important then than it is now. And for this reason: There will be a back-log of home construction variously estimated at up to 2,000,000 homes a year for the next ten years. Not only will there be a need for these new homes, but vast numbers of families will have the equity funds to consummate the purchase through their accumulated savings during the war period. This condition will go hand in hand with the possibility of widespread unemployment due to demobilization and to reconversion of many war industries to peacetime pursuits.

Private capital must be ready to step into this breach, conscious of the responsibilities it assumes. Working through the FHA insured mortgage system, it can be of material aid in counteracting the inflationary influences of insufficiency of supply to demand and that nightmare of the mortgage market—over-valuation. Important also is the fact that in financing the building industry, it is in large measure contributing to the preservation of private enterprise and through private enterprise offering widespread employment possibilities. No other industry is so well-equipped to furnish employment as quickly as the construction industry. Not only does it offer opportunities at the site, but it stimulates employment in the factories, in the mills, in the lumber camps, in the quarries and brick kilns, in the copper mines, on the railroads and in the ships that transport all the materials from the forest and mine to mill and factory, to the dealer and finally to the site of construction. No other one industry can so effectively keep as many allied industries going while we are getting over the immediate post-war hurdle.

Here is a challenge to mortgage lenders. I have always said, and I say again, that private capital should finance all the housing needed in this country except that which cannot be produced for an economic rent. Also, I believe, and I always have believed, that the stability and economic and social security of any country is in direct proportion to the number of homes owned in that country. Furthermore, the role of private capital in the production of housing goes far deeper than its mere investment. Housing and home ownership are inextricably interwoven into the entire economic structure of the country. As we know it also, it is inherent in our system of free enterprise.

Let me quote a statement made a short time ago by Vice President Wallace:

"The spirit of competition will and must continue to be one of our main driving forces.

"We can have full employment in this country without destroying private initiative, private capital, or private enterprise.

"The more private enterprise succeeds in maintaining full employment, the less Government spending will be required.

"Individual initiative and enterprise, and Government responsibility for the general welfare, will continue to pull in double harness for a better life for our people."

No finer example of that "double harness" exists, it seems to me, than in the cooperation between private financial institutions and the FHA in the real estate and mortgage markets.

I am well aware that some mortgage lenders were reticent and skeptical at first about the FHA insured mortgage system. But they have seen it operate now for over eight years. I believe they have developed faith in it and trust the FHA not to be bureaucratic. I am, therefore, confident that, immediately after the war is over, we can do this tremendous job that lies ahead—be the need 800,000, a million or two million houses a year for the next ten years.

Of course, there will be many factors to be considered when the time comes. There is no doubt that the country will have a heavier tax burden than ever before. High taxes have a very definite influence on home construction, shelter costs and the general standard of living. We must, therefore, seek to maintain a high level of national income. The better able you are to finance private builders and the more employment the builders can therefore provide, the easier it will be to hold a high income level and proportionately lessen the tax burden. This should result in more widespread home ownership, lowered costs and in a more efficient living unit.

Although it is hardly possible to define at this time exactly the result of

Want a Decal?

Not long ago we sent members a decalcomania of the MBA insignia designed to attach to the doors of their offices. We are pleased that so many members are using the decals because we think it reflects credit on the Association and on their judgment as well. Would you like another — probably for a prominent window or another door?

We will be glad to send those members who request a reasonable number of additional decals.

technical and scientific developments which have resulted from the war, we do know certain things that may affect the type of house you will be called upon to finance. As a result of the war effort the country's production capacity has tremendously expanded.

Aluminum production, for instance, has more than trebled and in a few years will be about seven times what it was before the war. The development of plastics is making gigantic strides. New uses and experience with plywood is another war-time development. Magnesium is an almost new material, as are other materials such as synthetic rubber. You may say these are matters for the builders. But they merit your close attention also, since they will undoubtedly affect the houses and what goes into the houses securing your mortgage loans. The very fact that industry is learning to produce these materials in large quantity surely portends a lower cost house when they find their proper role in peace-time construction. And a lower cost house certainly forecasts more widespread home ownership and more mortgage loan opportunities for private capital. However, I do not believe that the post-war house will be drastically revolutionary, either in design. materials or construction methods, regardless of the new materials that will be available. Custom and taste do not change quickly. Nevertheless, all these factors should have your attention since they are part and parcel of your mortgage business.

In speaking of the potential housing activitity in the post-war period, repairs and modernization should not be overlooked. Such repairs as are now being made are the bare maintenance items. Here, too, many of the new materials being developed will play an important part. New types of equipment are well along in the plan stage, ready to be immediately translated into peace-time equipment and adapted to household uses. As to the orthodox type of repairs, the United States Chamber of Commerce has found that about 3.4 out of every 10 home owners are planning to make repairs and improvements in their homes within six months after the war; 17 per cent are planning to paint the outside; 7 per cent expect to put on new roofs and 6 per cent hope to redecorate the interior. This sort of work perhaps presents an even faster industrial employment pick-up than does new construction itself because each separate job represents a small amount of cash or debt and requires very little by way of business organization as compared to the larger force that must be employed by a builder of new houses. Yet it is extremely widespread in application, reaching into every hamlet and village. Although Title I of the National Housing Act expires by statute next July 1st, it hardly seems possible in view of its past successful record that some such plan will not again be put into operation after the war.

Speaking of the demobilization period brings to mind one problem that will confront mortgage lenders. That is, what action you will take with respect to the Soldiers' and Sailors' Civil Relief Act. There is very little in our experience after the last war that offers a guide to this problem, still it could turn out to be a very real one. The postponement of debts and mortgages created no great problem in 1918. But conditions were quite different then in house construction and in the real estate mortgage market. The estimated total mortgage debt at that time, according to the National Industrial Conference Board was a little over 10 billion dollars as against the Federal Home Loan Bank Administration's estimate of over 19 billion dollars in 1940 on one to four-family urban dwellings alone. Furthermore, this war is reaching higher age groups—the family man, the home owner. If this problem should be serious, I trust mortgage lenders may be able to solve it, otherwise, there may be a demand on the Government to provide relief through some sort of subsidy or moratorium. Should it be too heavy a burden on mortgagees, possibly a refinancing system with Government insurance similar to the FHA plan might prove a satisfactory solution.

Somewhat similar to this problem, but far larger and more serious, is the salvaging of the interests of private enterprise in the final disposition of the housing that has been constructed as a war need. This does not cover only the Title VI FHA insured properties, but such housing as has been built directly by the Government with funds supplied under the Lanham Act and which the Federal Public Housing Commissioner at that time may wish to sell or dispose of in accordance with the terms of that Act. It is to the Government's interest and certainly to yours to see that such disposition is made in an orderly manner, and with as little interference with the housing market as possible. There is no doubt that many of the projects will offer splendid long-term investment opportunities to private investors.

This again brings me to the point I have tried and want to emphasize more than any other. We are all agreed that after this war we will be living in a different world. Old customs and old habits are dying around us every day. Some of them we see, some are not so easy to discern. Some people — the "die-hards"—refuse to see any of them. However, none of the changes, whatever they may be, can be allowed to kill the system of free enterprise that has made America great. "Free enterprise" does not mean monopoly; it does not mean the old concept of "laissez-faire"; it does not mean high profits for the few at the expense of many. It does mean opportunity for all to work at a reasonable profit or a fair wage—the banker and industrialist, as well as the worker. If we do not have our kind of "free enterprise" there is no alternative to complete control by Government. However, only private enterprise and private capital can be certain that they remain free. It cannot be done by fiat from Washington. And personally, I have every confidence that mortgage lenders are entirely aware of their responsibilities in this regard and will give their best efforts to its accomplishment.

NOTED IN PASSING

Irving G. Bjork was named supervisor of city loans of Connecticut General at the company's annual meeting. David G. Mahoney was named manager of city real estate.

Robert G. Heard, president, Joyner-Heard Company, Memphis, has been elected president of the Memphis Real Estate Board. Last year he was president of the Tennessee Association of Real Estate Boards.

Portfolio Raiding Creates No New Loans; Some Plain Speaking on the Subject

By W. E. MILLER

IN my opinion the FHA refinancing certificate has served its purpose well and we cannot expect FHA to police our industry for us. There have been instances reported of unethical practices by lenders in raiding loans by having prospective borrowers sign the certificate without contacting the present holder of the mortgage. Mortgage men all know how the signatures are thus obtained. Borrowers are told that the certificate is only a matter of form. I suspect few applicants know what they are signing. This is bad practice on the lender's part. You will find he probably conducts his business generally on this basis.

I believe this type of raiding has been at a minimum and it sometimes is the case of a lender becoming disturbed because he loses one loan. We all must realize that in handling many loans we cannot expect to hold every loan we make. In our area the certificate has worked unusually well. The industry in Cleveland, however, must be given credit for having taken certain responsibilities in order to facilitate its use. Lenders there refuse to give any figures to another institution for the closing of a loan if it is to be financed through another FHA loan. A borrower is forced to come in and deal with the present holder. We will not give figures to any prospective applicant where we hold the loan so that he may "shop around" for a better deal. We know that if we do he will obtain a better deal. We insist upon his obtaining the figures from the other institutions and if humanly possible we will meet competition in order to hold the loan. In this respect, it is necessary for the holder of the loan to do a good selling job on the prospective applicant so that he is satisfied to deal with you.

As I said before, we cannot expect FHA to police our industry; we must take this responsibility ourselves. FHA loans at the present time are in a vulnerable position from the standpoint of savings and loan associations. We have found many instances of their financing the purchase of homes with larger loans than FHA was willing to insure, despite the fact that they could insure an 80 per cent or 90 per cent loan on the property. I am not criticizing FHA because I think they are following a wise course in holding their values at a proper level. I do think, however, that it is wrong for a house to be sold to enable the purchaser to refinance the loan and avoid payment of the 1 per cent adjusted mortgage insurance premium. This should be paid and our industry would be better protected if we were allowed to charge a 1 per cent prepayment premium in cases of refinancing without our consent.

As far as losing loans to the savings and loan associations, I know of no cure. It is just a case of their being allowed to inflate their appraisals to get the business. We can recall what happened to them in the last depression—and at that time they were making much lower percentage loans. With FHA competition, it would seem they are certainly headed for trouble.

As to conventional loans, we all know what has happened in the past several years. There is no reason to believe that raiding will stop in the future unless some strong action is taken. Refinancing at a lower rate takes loans from one company and places them on the books of another. *No new business is created.* In a few areas 4 per cent interest is prevalent but for the most part we can assume that 4½ per cent is the going rate. Well, it was only a few years ago that 5 per cent was the going rate. We then saw new companies coming into the field offering 4½ per cent on 50 per cent loans as bait. Other lenders were gradually forced to meet the competition. It was 4½ per cent on everything up to the legal limit. Now we see indications that this procedure may be repeated. Four per cent money is offered in more and more areas. I do not like to see a cut in the rate because we all know the consequences. The news of a downward adjustment travels more quickly than news of a rise. When any reduction in the interest rate on new loans is made, the present borrowers then ask for an adjustment and it is an expensive procedure to handle these requests. When the whole thing settles down all we have done is complete an operation costly to the lender. The mortgagor is the only one who benefits.

A few institutions are offering properties for sale and advertising as low as 3½ per cent interest for the purchase money mortgage which they will take back. While their excuse is that they are in this way able to sell the property at a premium price, I sometimes have my doubts. We too sell properties and have checked on some of these deals. Someone is doing a great job of kidding himself because we have found there is a certain maximum price which a prospect will pay. They have not sold at a premium but they have created the thought in borrowers' minds that 3½ per cent money is available. We have been able to trace all of these requests back to the advertisements. The institutions are selling properties on attractive terms which include low down-payments and long term mortgages and certainly they should be able to obtain the going rate of interest in that area. In fact, we and others have been able to obtain a 5 per cent rate on a fair portion of our deals even though the going rate is 4½ per cent.

At the beginning of 1942 our Company's program included the curing of all trouble cases, that is, loans that were too full and where the property was not maintained. We have been carrying several cases along from year to year but we felt the time had arrived when we must make good loans out of the bad ones because we would be faced with higher taxes. If they could not pay now, it was doubtful whether they ever would be able to do so, we felt. We pretty well accomplished our purpose but we knew that under pressure some of these loans would be refinanced. Two cases stand out particularly. Both were given more money at 4½ per cent than we would renew at 5 per cent and we were happy that they were paid off.

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MARCH, 1943

MBA PLANS NEW DIVISION FOR MEMBERS' ATTORNEYS

MBA is to have a new division of members. Organization of a new legal division to which attorneys for member firms will be invited to joint as associate members, is announced.

While the Association's members in 42 states embrace mortgage firms, real estate organizations, life insurance and title and trust companies and commercial banks, this is the second divisional group established. The first was organized in 1937 for banks and mutual savings banks.

"Primary reason for the action," said President Mullenix, "is that the services of attorneys serving mortgage banking firms have become increasingly important in recent years. Many have asked for a closer and more direct contact with the work of the Association so that they could better understand our work and activities. It is hoped this new legal division will meet the needs of attorneys whose work requires specialized knowledge of mortgage banking."

Miller B. Pennell, Cleveland, is counsel for the Association and will be active in directing the work of the division.

MBA members are invited to inform their attorneys of this new arrangement. More detailed plans will be announced shortly by Norman R. Lloyd, membership chairman.

This fight for business is producing loose practices. One of the apartments I mentioned did not have a boiler. This was in effect our main reason for calling the loan. The boiler heating this building was in an adjacent building mortgaged to another company. The other loan had been extended from year to year for a long time. This building was in such a deplorable condition that had we placed the loan with any one of our companies, we would have lost a contract on their next inspection trip. While we are grateful for this type of raiding, we question whether or not it is good for the industry in general. I know that the companies we represent will never consider a loan held by another insurance company unless they have full details and good reasons for taking the investment. In other words, they do not want to do any raiding and they do not want to take somebody else's trouble. I believe this procedure should become a general practice of every correspondent and insurance company. In other words, they should know exactly why the loan is being offered to them and they should go further and not forget the real reason it was offered to them. This condition is not general but the practice of a small group of companies. *They are in for a rude awakening.* We all know that no company makes a habit of releasing good loans from its books.

You will recall that only *good* (?) loans were made in the 1920's but something went wrong and we had a lot of foreclosures. Of course, that is all past and we now are making only *perfect* loans and none will ever go bad. That appears to be the reasoning of a lot of institutions and individuals who represent them but it *can* happen again. I, for one, believe it will. Of course, no one will know that he made a mistake until we hit a few more years like the early 1930's. At that time we will find out what kind of mortgage banking we did. I am sure that if we take over someone else's trouble, we will be sorry. A great many loans which are raided come under the classification of marginal loans. In most instances, the borrower has been offered a minimum rate on a long term basis and a low amortization schedule. In many instances this is the business that is "shopped around". If you want to get into some *real* trouble, just be the highest bidder *consistently*.

There are several institutions in Cleveland who have 4 per cent money available. They have not used it and they will not as long as the rest of the industry in that area stays in line. Each of these institutions knows that if it goes to 4 per cent, others will follow and the little extra business it gets will prove most costly because of reductions it will have to give all along the line.

One of the companies we represent recently wrote to us to inquire as to the increase in business we could show if they would make 4 per cent loans. We answered by saying we could not show any increase and went on to point out the detrimental features of even offering this kind of money. I had occasion shortly thereafter to talk to the mortgage loan manager and he said he had received similar replies from nearly all of their correspondents. He added, however, that a lot of their correspondents had been demanding a lower rate, claiming they could obtain more business. Nevertheless, when it was actually offered them and they had an opportunity to think over the consequences, they arrived at different conclusions. We must go even further and consider that we *can reach* a point in interest rates to cause large institutions to *abandon mortgage lending* and turn to other forms of investment. We must have a profitable operation but so must the companies with whom we place the loans.

The only way that raiding can be stopped is by direct action of those companies doing this type of business. The very serious aspects of raiding have been pointed out and it is plain that there is a great necessity for courageous action on the part of men in accepting loans held by other institutions. If all mortgagees will take stock of themselves and do business on a high plane, they can build good will—and we all know how necessary that is in our business.

HE'S IN THE ARMY

Stuart Dawson, for the past 20 years with Wilson D. Wood Mortgage Company, Kansas City, has entered the army as a private. He is at Leavenworth, Kansas.

BUY WAR BONDS

President's Report to the Membership

THE best Clinic in the history of MBA was held in Chicago on February 26th and 27th with more than 250 attending. All of you who missed it really have lost some valuable contacts and information. However, the outstanding papers will be published in succeeding issues of *The Mortgage Banker.*

I am most appreciative and thankful for the fine cooperation of members generally in having secured and forwarded so many fine applications for new memberships. Never in the history of the Association has there been so many new members taken into MBA as has been the case to date this year.

Since the last report in February we have negotiated a change in War Damage Insurance regulations, which, when made effective will be most beneficial to mortgagees, particularly in the coastal areas.

Negotiations are now under discussion with FHA in the hope of correcting unsatisfactory performance under the pay-off certificates. We are hopeful that this will result in a solution most beneficial to our membership.

Negotiations are also under way to clarify and make more desirable the plan of selling the presently held portfolio of FNMA to protect the greatest possible number of MBA members.

A bill sponsored by MBA and known as Senate Bill 755 has been introduced in the Senate and will be introduced in the House to permit FHA to begin interest payment on debentures from the date of default in those cases where it is desirable to delay foreclosure against persons in the armed forces. This follows our determined policy to assist, wherever possible, in the relief of those in service, and at the same time to solve a rather serious public relations problem for all mortgagees. The entire membership will be called upon to support this bill within the next few days.

The officers and committees of the Association are watching closely the work being done in Washington with regard to the housing program after July 1, 1943. The present program, which calls for 170,000 units prior to July 1st, is already effective and a full explanation has been sent to the membership as a special service. We are now concerned with the program to be made effective after July 1st, and we are hopeful that there may be some encouraging information at an early date.

It is anticipated that the next Clinic meeting will be combined with our annual meeting on September 29th, 30th and October 1st in Cleveland. Further announcements will be made later. The September meeting should be most important because, by that time, we shall have six months further experience with the war, and naturally we are hopeful that we can then approximate the end.

C A Mullenix